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SUBJECT: IMF MISSION: MIXED MARKS, BUT READY TO SUPPORT SENEGAL'S
POLICY SUPPORT INSTRUMENT (PSI)

DAKAR 00001591 001.2 OF 002

¶1. Summary: A visiting IMF team led by Johanness Mueller provided an end-of-mission briefing for donors on July 26 to inform them of the state of the ongoing negotiations of a new program with Senegal.

Mueller termed FY 2006 a "difficult year," and said that, while Senegal is still struggling to adjust to the energy crisis, the economy may recover in 2007 thanks to the resumption of ICS operations and

the buoyant service and construction sectors. Mueller emphasized the need for greatly increased fiscal discipline, reduced levels of domestic internal debt, and reduced level of expenditures to focus on priority sectors. He noted that Senegal would need to weigh all costs and benefits in deciding to seek PSI status. He praised the new GOS for its spirit of cooperation and openness and said the IMF board would probably approve Senegal's PSI by September. End Summary.

¶2. The IMF team visited Senegal July 12 through July 26 to negotiate a new program with Senegal. Mueller provided an end-of-mission briefing for donors on July 26. Embassy representatives from France, United Kingdom, Japan, Germany, Italy, Belgium, Switzerland, Canada, Holland, Spain, The European Union, World Bank, African Development Bank, Kuwait, India, and the U.S. attended the IMF's July 26 out-briefing.

2006 A "DIFFICULT YEAR"

¶3. In reviewing the state of the economy, Mueller said that 2006 had been extremely difficult. He estimated real GDP growth for 2006 at 2.1 percent and year-end inflation at 3 percent. Mueller blamed the energy crisis, the presidential and legislative elections held in February and June 2007, and the ICS crisis for having further deteriorated the macroeconomic situation in 2006.

¶4. For FY 2007, Mueller predicted that GDP growth should be around 5.4 percent and 5.1 percent for the upcoming year 2008 - as a result of the buoyant service and construction sectors and the positive resumption of ICS operations, with inflation increasing at 5 percent. Mueller stated, "we are less concerned about macroeconomic issues, and most of our discussions with GOS officials focused on budget policy, good governance and transparency."

A HOST OF PROBLEMS, BUT...

¶5. Mueller reiterated a familiar litany of looming problems that the GOS must deal with promptly and decisively. He enumerated several priorities:

- getting GOS institutions operating effectively,
- prioritizing investment projects and increasing spending on poverty reduction, health, education, and agricultural sectors,
- containing the budget deficit at 4.7 percent of GDP in the medium term,
- containing the wage bill which increased significantly in FY 2006 and FY 2007,
- limiting subsidies to the energy sector,
- eliminating the outstanding internal debt in the short term and reducing payment arrears,
- initiating a structural reform on budget by strengthening good governance and transparency in public spending,
- reinforcing procurement laws, regulations and procedures to ensure transparency and good governance,
- formulating the role of the private sector in the development process,
- strengthening measures to limit the number of agencies, and
- speeding up the financial sector reforms in cooperation with the BCEAO to establish a legal and regulated framework for SMEs and MSIs.

GOOD SPIRIT OF COOPERATION

¶6. Mueller praised the GOS's cooperation and open-ness and stated "we have received documents with outstanding information and reliable data that demonstrated GOS willingness to quickly conclude a program with the IMF." With regard to the previous administration's misreporting of some bilateral arrears, Mueller said his team had held "very fruitful discussions" with the new GOS officials. He said that he had obtained all the data he needed and would take this back to IMF management to decide next step. He complimented the GOS for its "excellent spirit of sharing

DAKAR 00001591 002.2 OF 002

information," and said that the Finance Ministry and IMF were "struggling together" to get a clear picture of the GOS's arrears position.

¶7. Mueller indicated that his team has received - for the first time - reliable information on APIX and ANOCI regarding their tenders and contracts. He noted that the GOS is open to revising the institutional architecture of the new airport project and changing the status of APIX.

¶8. Mueller supported the re-establishment of a recent dialogue between the World Bank, the African Development Bank (AFDB), and the Islamic Development Bank (IDB) with Senegal to speed up the energy sector reform. He said that without a reform of the energy sector it would be difficult for Senegal to meet the requirements of any program with the IMF. He also encouraged the AFDB's cooperation with Senegal on issues related to the accelerated growth strategy process, the improvement of the business climate, and the discussion on the energy sector reform in cooperation with the WB, and the IDB.

SENEGAL WANTS A PSI

¶9. In a later conversation with Senegal's IMF Resrep Alex Segura on July 30, post learned that the GOS has now formally requested the institution of a PSI program with the IMF. The IMF team would review and submit Senegal's proposal to its Headquarters for approval, then once approved the document would be transmitted to the IMF Board of Directors which might take the final decision by the end of September. Though there is no major difference within the two programs (PSI and PRGF), the PSI seems to be less flexible and more constraining than the PRGF and it also focuses more on economic growth and structural reforms.

¶10. COMMENT: Mueller was repeatedly complimentary of the GOS on its spirit of cooperation and openness, though any new program with the IMF could bring back donor confidence and raise Senegal's

credibility. It is not surprising to see Senegal adhere to a PSI program that could ease the way toward government borrowing from commercial lenders or expanded bond issuance. While we expect donor support is likely to be forthcoming, Senegal will have to commit to deeper economic reforms that will improve the business climate and establish transparency in the procurement and budget allocation process. Senegal might be eligible to defend its position in the October 3-4 Paris Club Consultative Group meeting in Paris, should the IMF Board approve its new PSI.

¶11. (U) Visit Embassy Dakar's intranet site at:
<http://dakar.state.gov/htdocs/section/econSection.aspx> and embassy
Dakar's Sprint Web site at <http://www.state.sgov.gov/p/af/dakar>

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